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C O N F I D E N T I A L SECTION 01 OF 02 SHENYANG 000251

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PREL

SUBJECT: EXCESS DOMESTIC DEMAND DRIVES CHINA'S GRAIN MARKET STRATEGY

REF: A. SHENYANG 248

[1B.](#) SHANGHAI 784
[1C.](#) BEIJING 7554

DEPT PLEASE PASS TO DEPARTMENT OF AGRICULTURE

Classified By: CONSUL GENERAL STEPHEN B. WICKMAN.
REASONS: 1.4(B), 1.4(D)

[11.](#) (C) Summary. China will not allow any exports of corn or soybeans during 2008 and will radically curtail wheat exports, according to Wang Haisheng, Director of state-owned Jilin Grain Group and General Manager of Jilin Grain Group Export and Import Company. Wang's company, which accounts for sixty percent of China's annual export capacity, also looks to dramatically increase its imports of corn and soybeans, especially from the United States. The increasingly tight grain market has led Jilin Grain to change the staffing pattern at its recently opened office in Chicago, which will now hire more experienced American traders to replace planned transfers from the home office in Changchun. End Summary

No Food to Burn

[12.](#) (C) Wang Haisheng, Director of state-owned Jilin Grain Group and General Manager of Jilin Grain Group Export and Import Company, told Econoff on December 25 that the increasing use of oil-bearing plants, particularly corn and soybeans, to produce bio-fuels has had a major impact on China's food supply, creating shortages and driving prices higher. Government efforts to eliminate the diversion of grain from the food and feed markets into the fuel market have been largely unsuccessful, according to Wang. He said that domestic supply and demand had previously been relatively balanced, but the impact of the bio-fuel boom, both domestically and in the international market, has caused demand to surge well past supply.

[13.](#) (C) As the country becomes more affluent, changes to the food supply system are only exacerbating the effects of the bio-fuel boom.. For example, Wang said, animal feed and deep-processed corn products account for an ever-increasing share of the overall market. These less efficient uses result in increased per capita consumption thus adding to price pressure.

No More Tax Rebates

¶4. (C) When asked about China's recently announced elimination of the 13-percent export-tax rebates for a range of agricultural products, including wheat, corn and soy, Wang said the measures were chiefly aimed at private firms in order to encourage them to stay out of the export market. State-owned firms, which account for the vast majority of the market, are simply being told not to export. Noting that the elimination of rebates couldn't very well be criticized by other trading nations, Wang said the measure will make it easier to explain China's absence from the market this year.

¶5. (C) Because domestic demand is so high, Wang said that Jilin Group and its counterparts in other grain-producing regions have been directed to sell from state reserves. Sales from the reserves would add an extra 2 million tons of corn to the nation's supply from mid-December to mid-January, according to Wang, and all food producers in China are being directed to take steps to get food prices under control. Wang's company, in particular, plans to step up its activity in global markets, but he said there likely would be more government steps announced to curb rampant food-price inflation (reftels).

If You Thought Supplies Were Tight Last Year

¶6. (C) Market analysts have predicted that China will reduce corn exports to 2.5 million metric tons for the 2007-08 (October to October) trading year. China approved 4.5 million tons of export quotas at the beginning of the 2006-07 trading year but halted sales at 3.8 million tons due to rising domestic prices. Wang's information, if proven correct, indicates that the reduction in corn exports will be total. The removal of an additional 2.5 million tons from

SHENYANG 00000251 002 OF 002

global supply would have a major impact on stocks that, according to industry reports, are already at thirty-year lows. The increasingly tight grain market has led Jilin Grain to change the staffing pattern at its recently opened office in Chicago. The company will hire more experienced American traders who, it is hoped, will be more effective than the staff they had originally planned to transfer from Changchun.

WICKMAN